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Diana T Fritz 05/24/2007 04:38:07 PM From DB/Inbox: Search Results

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TELEGRAM

April 02, 2003

To: No Action Addressee  
Action: Unknown  
From: AMEMBASSY ABU DHABI (ABU DHABI 1603 - PRIORITY)  
TAGS: BEXP, BBSR, ECON, ETRD, EINV  
Captions: None  
Subject: TFIZ01: SOME GOOD EFFECTS, SOME BAD, BUT MOSTLY JUST  
WAITING -- UAE BUSINESS FEELS THE IMPACT OF WAR  
Ref: None

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C O N F I D E N T I A L ABU DHABI 01603

SIPDIS  
CXABU:  
ACTION: ECON  
INFO: P/M POL AMB DCM  
Laser1:  
INFO: FCS

DISSEMINATION: ECON  
CHARGE: PROG

APPROVED: DCM: RALBRIGHT  
DRAFTED: ECON:CCRUMPLER  
CLEARED: ECON: TWILLIAMS; ECON: GRANA

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PP RUEHC RUCNRAQ RUEHDE RUCPDOQ  
DE RUEHAD #1603/01 0921422  
ZNY CCCCC ZZH  
P 021422Z APR 03  
FM AMEMBASSY ABU DHABI  
TO RUEHC/SECSTATE WASHDC PRIORITY 9233  
INFO RUCNRAQ/IRAQ COLLECTIVE  
RUEHDE/AMCONSUL DUBAI 2987  
RUCPDOQ/DEPT OF COMMERCE WASHDC

C O N F I D E N T I A L SECTION 01 OF 02 ABU DHABI 001603

SIPDIS

DEPT FOR IRAQ TASK FORCE, NEA/RA, NEA/ARP, EB/CBA

E.O. 12958: DECL 04/02/08  
TAGS: [BEXP](#) [BBSR](#) [ECON](#) [ETRD](#) [EINV](#) [TC](#)  
SUBJECT: TFIZ01: SOME GOOD EFFECTS, SOME BAD, BUT MOSTLY  
JUST WAITING -- UAE BUSINESS FEELS THE IMPACT OF WAR

¶1. (U) Classified by DCM Richard A. Albright for reasons  
1.5 (B) and (D).

¶2. (C) Summary and Comment: Continued high oil prices have  
largely immunized the UAE economy from any major fall-out  
from the ongoing Iraq war. On a micro level, Kuwaiti  
traders are said to be placing large orders for commodities  
in local markets (particularly Dubai, from whence 20 to 30  
trucks per day leave for Kuwait), and local construction  
companies have begun raising their fees in anticipation of a  
post-war run on building supplies. More significantly,

hotel occupancy and travel are down sharply. Even UAE residents are spending more time at home watching the war on television than in the many restaurants and shopping malls here. Other negative impacts include increased shipping costs because of higher insurance premiums and higher overland transportation charges because of a shortage of heavy trucks. But the overall sense is more one of drift than actual loss. Small and medium-sized businesses here report that orders (especially those for non-oil activities) are in a slump, volume on the UAE's stock exchanges is at best a trickle, and most local investment is on hold until the situation in Iraq is resolved. Our business contacts say the war is clearly depressing the local economy, but hope that -- as long as it doesn't drag out too long -- the benefits of trade with a liberated Iraq will more than offset the current losses. End summary and comment.

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Trading Becomes More Expensive  
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¶3. (C) The UAE, as a major logistics and transportation hub, is suffering from higher war-induced insurance premiums. The insurance premium on shipments by sea and air has increased in recent weeks from 0.0275 percent of the total value of the shipment to 0.095 percent an increase of 71 percent. The war risk on road transportation insurance premiums, likewise, has increased approximately 22 percent since the onset of hostilities in Iraq.

¶4. (U) Local newspapers report that the wholesale prices of sugar, oil, medicines, readymade garments, and flour have increased in Dubai by 25 percent in the last two weeks, due to the increase in the demand of these goods by traders in Kuwait. The National Committee for Supply and Shipping in Dubai estimates 20 to 30 trucks each day travel from Dubai to Kuwait, in addition to the many sea vessels carrying consumer goods. According to the same article, a prominent businessman in Dubai said that traders in the construction sector have increased prices of building materials, and expect an increase in demand for these goods for the reconstruction of Iraq. The construction of a 4,000 square foot villa usually costs 420,000 dirhams, but has increased in recent weeks by 26 percent to 530,000 dirhams.

¶5. (C) A prominent local businessman and owner of a chain of retail clothing stores, Mohan Jashanmal, said that his business had already suffered from the global recession. The war with Iraq - nd fear of attacks from Iraqi and other terrorists in the UAE - owever, had devastated business. He noted to Econoff on 3/31 that people are now afraid to go to the malls, and prefer to stay home to watch events in Iraq unfold on television. (Note: Embassy personnel have heard frequent false rumors of bomb threats at Abu Dhabi malls since the onset of hostilities with Iraq. It is not surprising that Jashanmal reports that local mall attendance is down. End note.)

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Local Investors Wary  
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¶6. (C) Deputy Director General of the Abu Dhabi Stock Exchange told Econoff 3/29 that the volume of trading on the Abu Dhabi Stock Market fell from 141 million dirhams to 55 million dirhams the first week of the war, but has since rebounded somewhat. He perceives that local investors are leery of new investments, and are waiting to see how the war bears out.

¶7. (C) UAE Ministry of Oil, Director of Economic Affairs (and private businessman/ local investor) Hamdan Al-Akbari told Econoff on 3/31 that, although the local economy seemed unaffected by the war, he had decided to divest certain holdings and delay plans for new investments. Al-Akbari said that he was aware of a number of minor oilfield services and construction contracts that had been put on hold recently. He felt that he should wait until the

political environment in the region stabilized before pursuing new investments.

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Tourism Is Down  
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¶18. (C) A sales associate from the Intercontinental Hotel recently told Econoff that the local hospitality industry is suffering through a difficult time because of the war. She estimated that Dubai hotels are at 40 percent occupancy rates and Abu Dhabi, slightly less. (Note: Dubai hotels target both tourists and business people while Abu Dhabi attracts business people. End note.) Sales targets for March are off considerably from earlier this year, and the sales associate already knows she won't make her April quota. She forecasts tough times through the summer, fearing that people will avoid the region even after the conclusion of hostilities because of the threat of terrorism and continuing fiscal restraint by companies regionally as well as globally.

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American Businessmen Fear Longer-Term Repercussions  
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¶19. (C) An Arab-American and long-time importer of American products in Abu Dhabi told Econoff on 3/26 that U.S. businesses were hurting only one week after the onset of hostilities in Iraq. One of his major projects outfitting ADNOC gas stations with American lube equipment and state-of-the-art car washes was put on hold indefinitely within the last week by ADNOC, and without justification. He heard that ADNOC Distribution was talking to a European firm to do the same work.

¶10. (C) The American businessman also noted that the slogan "Made in the USA" once was a marketing tool that increased sales of certain products. Within the last week, local retail outlets had requested the slogan be removed; it's perceived that the "made in the USA" slogan will deter sales given events in the region.

¶11. (C) Another American businessman told Econoff 3/28 that a quick resolution to the war will be better for U.S. businesses here in the short-term, but the USG will have to do a lot of work to improve its image and that of U.S. companies in the long-term. Rumors of secret contracts awarded to American firms (especially Halliburton) perpetuated the theory that this war is only about money, and U.S. business ultimately pay the price. "They [Arabs] think we're all mercenaries," said the American businessman. To counter this perception, the businessman donated loading equipment valued at \$62,000 USD to the UAE Red Crescent Authority to load humanitarian supplies at Mina Zayid.

Wahba